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ATTITUDE SURVEY

How employees rate their jobs—Pages 15-17

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Chains embrace creative financing

By Joe Edwards

The corporate accountant was obviously scornful of the executive from a competing company who, earlier in the day, had sheepishly admitted keeping a money-losing dessert item on his chain's menu because, in the executive's words, "I'm an ice cream freak."

"We had those sacred cows, too," the accountant said, but it was clear from his tone that sentimentality and whimsy had no place in his company's new no-nonsense strategy.

To prove his point, the accountant related how his chain canceled the rollout of a popular test item because its food cost was *one quarter of one per cent* higher than the original estimates.

Perhaps more than at any point in recent chain restaurant history, the crushing cost of doing business is worrying operators and franchisees. Faced with rising expenses across the board, and the staggering cost of borrowing money, they are paying extra careful attention to the comings and goings of every dollar.

Nowhere is this attention to detail more evident than in the area of financing capital expenditures. With the prime interest rate hovering around the 20% mark in recent months, and expected to stay in the stratosphere in 1982, operators have been seeking out alternative means of financing unit growth and major purchases.

True, some chains have postponed major expansion and renovation projects because interest rates are too high, but others have been aggressively seeking out different ways of finding the cash to finance their projects.

Traditional financing is out of the question for some large corporations, smaller companies and individual franchisees caught in a cash squeeze. It's just too expensive. As one

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ANOTHER SUCCESSFUL MUFSO CONFERENCE

The 22nd annual MUFSO conference, sponsored by *Nation's Restaurant News*, drew some 800 operators, suppliers and guests to the Fairmont Hotel in New Orleans. Full conference coverage appears on Pages 43-70.

Tourism bill holds big promise

WASHINGTON—Congress passed a compromise national tourism bill that food-service lobbyists predict will generate hundreds of millions of dollars in extra restaurant patronage annually.

Although the measure does not call for the creation of a new cabinet-level Department of Tourism—a provision supported by the National Restaurant Association and other travel-sensitive industry groups—NRA said that the new law should "increase the almost $40 billion spent annually by travelers in the nation's eating places."

The amount spent by foreign visitors on restaurant meals each year is only a fraction of this—about $2.5 billion, according to NRA estimates—but restaurant leaders regard this as extra business for eating establishments in the United States.

For some two years now, NRA has been pushing for new Federal programs to encourage tourism, but with mixed results. Late last year Congress approved legislation creating a new Federal Department of Tourism, only to have that bill vetoed by President Carter. The incoming Reagan Administration proved to be equally opposed to such a new cabinet-level agency and threatened to veto the legislation again this year.

Rather than risk another defeat, NRA and other tourism industry groups began pushing for the compromise version that cleared Congress.

Under the final bill—which is expected to be signed into law by President Reagan—the old United States Travel Service

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LATE NEWSBREAKS

Krystal, Chattanooga, Tenn., with 200 fast-food units in nine Southeastern states, says it will add 50% more restaurants in the next five years. The chain "has made a long-term commitment to growth both within and outside traditional Krystal territory," president Carl Long said.

United States hotel occupancy rates fell to 69.1% for the first half of the year, a 3.9% drop from last year, according to hotel accountants Pannell Kerr Foster. However, 12.1% average room rate increases boosted daily room revenues 7.2% to an average $54.82. (Full details, next issue.)

Victoria Station reported $391,000 net profits for the second quarter ended Sept. 13, compared to a loss of $1.6 million for the same period last year. First half profits were $1.1 million, compared to a $2.8 million loss.

Mexican segment

Dinnerhouses enjoy major growth, profit boom . . .

By Charles Forman

Mexican dinnerhouse chains are plunging ahead with ambitious unit growth plans, barely paying heed to potential pitfalls.

Low food costs, high liquor sales and comparatively healthy customer counts are translating into highly profitable operations—and effective expansion lures.

For a statistical breakdown of selected leading Mexican Dinnerhouses see chart on Page 108.

Dangers of market crowding and overextension seem ignored.

Stock-market-hot Chi-Chi's, General Mills budding Casa Gallardo concept, California-centered Acapulco y los Arcos, and a dozen others are pushing hard to get more stores into operation.

Segment leader in sales, W. R. Grace's El Torito-La Fiesta chain is pacing this pack's rush to get established in developing markets in Midwest, Southeast and mid-Atlantic States.

The action is hot for others too.

Asked to name their competition, executives of the largest chains mentioned most often nine-unit Garcia's of Scottsdale.

W. R. Grace is putting chips on another entrant in the field besides El Torito with Gilbert/Robinson's Annie's Santa Fe concept.

General Food Corp.'s GuadalaHarry's, hurt by a store closing in Denver, plus a kickback scandal earlier this year involving top executives, can be counted back in the fray now, too.

Certainly part of the exceptional effort by these companies to get new stores operating is its recognition of the cause of the segment's popularity today as its positioning on the fringes of the "adult fun" market—a fashion business.

To capture available profits while they can, the expansion minded are taking almost any detour they can find to get around the roadblocks of high interest and construction costs.

Here are some of the major expansion efforts:

• Chi-Chi's added 18 units to a base of 14 in fiscal 1981 ended April 30. By next May the company says it will have about 55 dinnerhouses operating. (Thirty-seven are open now.) "The business is growing dramatically," said marketing vice president Jack Butorac.

Chi-Chi's has new units near Harvard Square (Boston) and in Rochester, N.Y.

(Continued on page 108)

. . . While fast feeders battle slump

By Diane C. Farewell

Growth in the Mexican fast-food market remains at a standstill.

Low unit volumes, high expansion costs and problems with consumer acceptance are pressuring this segment of the industry to change gears and seek out new strategies.

Already, decor and menu changes are in the works almost across the board, with several of the major chains hunting for new areas of expansion.

While Mexican dinnerhouses appear to be on the brink of a major surge, analysts are emphatic that the Mexican fast-food segment will not be a part of this growth. But at least some operators disagree; they are certain the tide is already turning, once again, in their favor.

Statistics from the U.S. Department of Commerce indicate that franchised Mexican restaurants had sales of about $750 million in 1980. However, sales growth dipped from a high of 60% in 1977-78 to only 8% in 1979-80.

Ronald Paul, president of Telenomic Consultants, con-

(Continued on page 108)

Shoney's seeks variety in bid for Famous Recipe

NASHVILLE—Shoney's Inc. has signed an agreement to acquire Cincinnati-based Famous Recipe Fried Chicken.

If concluded, the acquisition would considerably strengthen Shoney's restaurant arsenal. Shoney's now operates Big Boy family restaurants, Captain D's Fast-fish units, and dinnerhouse and specialty restaurants under three tradenames: Towne and Country, Fifth Quarter Steak Houses and Sailmaker Restaurants.

In another development, Shoney's reportedly intends to enter the Florida and Kentucky markets with its Towne and Country concept, which features family-style menus similar to Big Boys'.

The expansion would open up new territory for Shoney's, whose Big Boy franchising rights are limited to an 11-state region.

The company currently operates for Towne and Country units, which average about $1 million in sales annually.

Shoney's has agreed to pay an undisclosed amount in cash for the inventory and franchise rights of closely held Famous Recipe.

Principal stockholders—and founders—of the chicken chain are Harold Omer and Lee Cummings.

According to the agreement, Cummings will be retained as a consultant and Omer will continue to operate the 13 company-owned Famous Recipe units.

Founded in 1966, Famous Recipe operates 217 franchised chicken restaurants in 23 states. The majority of the units are in the Midwest. Omer said he will in essence become a franchisee of Shoney's as of Nov. 2, 1981.

He added that he decided to sell Famous Recipe because he felt the company needed a higher energy level and greater push to move ahead. Sales for Famous Recipe for 1980 totaled $85 million, Omer said. Thus far this year sales are up 9%, he added.

In purchasing the chicken chain, Shoney's had to dispose of its 22 Kentucky Fried Chicken stores to comply with a noncompete agreement with KFC. Shoney's has signed a letter of intent for KFC to acquire the franchises.

Sales at the 22 KFC units were over $10 million last year.

An agreement also was reached with KFC restricting company-owned and new franchisee expansion of Famous Recipes for a one-year period. This agreement includes other provisions which protect KFC's proprietary business and operating systems. Existing Famous Recipe franchisees are not affected by the agreement.

Shoney's president David Wachtel said that minor changes would be forthcoming at Famous Recipe chain but added that no extensive planning had been done yet.

U.S. bars 2 Australian firms

Mutton found in imported beef

By Ken Rankin

WASHINGTON—Agriculture Department meat inspectors turned up evidence that at least two additional Australian slaughterhouses are exporting contaminated meat which may have found its way into United States restaurants.

The latest discoveries bring to four the number of Australian meat plants which have been barred from shipping boneless beef to this country.

The new findings also produced a fresh twist: in addition to Australian beef shipments laced with horse and kangaroo meat, U.S.D.A. officials confirmed that some of the imported beef contained mutton.

The latest slaughterhouses cited by United States and Australian investigators are Steigers Meat Supply and Tabor Meats, both of which are located in the Australian cattle-producing state of Victoria.

A U.S.D.A. spokesman told *Nation's Restaurant News* that the agency's nationwide "species identification program" had confirmed the presence of mutton in boneless beef supplied by Tabor to firms in this country. Department officials refused to disclose whether any of this contaminated beef had been supplied to food-service operators.

Australian inspectors, meanwhile, notified United States authorities that some of Steigers exports contain horsemeat. Although the stocks of this contaminated product were not destined for shipment to the United States, Agriculture Department officials confirmed that some 1,600 boxes of Steigers meat has already been shipped to the country this year.

U.S.D.A. inspectors are attempting to track down these supplies for extensive testing, a department spokesman said.

The United States investigation has already resulted in a clean bill of health for at least 18 of Victoria's 51 slaughterhouses, and boneless beef

(Continued on page 107)

Industry feels bite of local taxes

VIRGINIA BEACH, Va.—This Tidewater city, one of the largest and fastest-growing in the state, has imposed a 6% tax on all restaurant meals.

The measure has already "cut business dramatically" at the city's 850 restaurants, according to Carol Foster of the Virginia Restaurant Association in Richmond. Tacked onto the city's regular retail sales tax, the levy produces a total tax on restaurant meals of 10%. This, added to the normal tip, presents patrons with a 25% increase in their bill for dining out. Many of them, according to Foster, take their business elsewhere instead.

Virginia Beach is only one of several communities, centered in Virginia but as far away as Illinois and Michigan, to exploit the restaurant industry as a source of extra revenue in a time when municipal and county governments are feeling the bite of a sharply reduced Federal budget.

The food-service industry, Foster speculated, was chosen as a target for several reasons. First, she said, local governments tend to envision restaurants as part of the tourist industry and, therefore, feel a tax on restaurant meals falls not upon locals, but upon out-of-towners.

She also attributed the movement to their perception that all restaurant meals are luxuries and can be taxed as such. Another reason restaurants were chosen, she said, might be the political diversity of the restaurateur community in many towns, which would make them more vulnerable to a tax.

But these reasons are ill-considered, she said. "Restaurant meals are not luxuries, they're a necessity," she said, stressing the growing number of two-paycheck families that eat out

To refute the Virginia Beach lawmakers' contention that restaurant-goers are tourists, she said that only about 100 of the city's 850 restaurants are tourist-oriented enough to close down during the off-season.

Two awarded NRN scholarships

NEW YORK—Winners of *Nation's Restaurant News* first annual scholarships to The Culinary Institute, Hyde Park, N.Y., are Janis Ruth Ford, 25, Farmington, N.M., and Jeannette I. Phillips, 22, Nashville, Tenn.

Ford and Phillips were picked for the scholarships from among numerous contenders for their degree of commitment to food-service work and the high quality of their experience.

Ford won the $1,500 first prize scholarship and Phillips the second prize of $1,000 after a judging committee headed by Ferdinand Metz, Culinary Institute president culled employers' recommendations and other data to determine the best candidates.

Ford, who will graduate from the Culinary Institute next spring, has been supporting herself since graduating from high school. She worked in the industry for seven years before enrolling at the Culinary Institute.

"I've worked both front- and back-of-the house," Ford said. She'd decided to become a chef, she noted, "because of the creative outlet I find there."

Phillips has two years of hands-on food-service experience. She's worked as a banquet cook, line cook, prep cook, bartender and waitress in a variety of Nashville restaurants. She'll start her studies at the Culinary Institute in January.

Students at the school receive an Associate in Occupational Studies degree upon successful completion of a 21-month course.

Jeannette Phillips, winner of second prize, $1,000 *Nation's Restaurant News* scholarship.

Seminars to examine design, management

NRN Special Report

Intensive two-day seminars on restaurant design and human resource management will be conducted in major cities during the next months. The seminars are sponsored by *Nation's Restaurant News* and the center for Retailing Management.

Ygal Sonenshine, president of Raygal Design Associates, Irvine, Calif., will lead the seminar titled "Restaurant Design: Facelift, Refurbishment or Full Remodel?" Seminars are scheduled for Oct. 29-30 in New York, Nov. 9-10 in Chicago, Jan. 18-19 in Los Angeles and Feb. 11-12 in Atlanta.

Directed primarily at restaurateurs, hotel and other hospitality industry managers, the seminar will examine investment vs. projected return; basic factors to remodeling; the limits of remodeling; energy considerations and many other subjects.

Emphasis will be placed on economic factors. "The most important consideration in remodeling, as with any economic venture, is return on investment," Sonenshine said, adding that the role of market research in the mix of financing, design, general contracting, merchandising, management and advertising will be discussed.

Raygal Design Associates was founded in 1971 and has grown from two employees to a staff of more than 70 with sales in excess of $20 million. Some of the companies services are front and back of the house design, interior and exterior design, selection of theme, merchandising and market analysis.

The second seminar called "Effective Human Resource Management for the food-service industry" was scheduled to start Oct. 19-20 in New York and was planned for Orlando on Oct. 22-23; later dates were Minneapolis on Jan. 18 and 19, Pittsburgh on Jan. 21 and 22, Houston on Feb. 1 and 2, Los Angeles on Feb. 23 and 24.

William E. Rogin is the seminar leader. Rogin is vice president of SHR International Inc.,

(Continued on page 107)

HIGHLIGHTS IN THIS ISSUE

NRN held its 22nd annual Multi Unit Food Service Operators (MUFSO) conference at New Orlean's Fairmont Hotel. Full coverage on *pages 43 to 70.*

In this issue *NRN* explores employee attitudes, focusing on how they feel and what operators can do to improve relations. *Pages 15 to 18.*

Employee morale unit level has not improved much in the past few years, according to a recent survey. *NRN* editor Charles Bernstein feels unit level must be regarded as the heart of this business and operators should pay heed to employee attitudes. *Page 6.*

***NRN* wine** and spirits columnist Mort Hochstein regards wine lists and presentation strategies as tantamount to a restaurant's success and operators can benefit from studying methods of "wine selling masters." *Page 85.*

Dallas-based El Chico is using a strategy that has been building its customer counts and increasing unit sales. *Page 34.*

Atlantic City casinos are creating a growing demand for more sophisticated menus. *Page 80.*

As the country's teenage population continues to decrease, its growing affluence is turning this group into a lucrative market for the restaurant industry. *Page 40.*

Greenwich, Conn., Showboat Inn and Restaurant along the waterfront is attracting businessmen, yachters and vacationers with its setting and varied facilities. *Pages 20 to 21.*

Clyde Griffith, National Restaurant Association legal counsel, speaks out against legal injustices suffered by food-service operators in the second installment of a two-part interview. *Page 105.*

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Mex dinnerhouses putting chips on expansion

(Continued from page 1)

To the investment community Chi-Chi's is hot. Company stock has been selling at about 30 times book value.

The company's largest franchisee, Kelly-Johnston Enterprises, with five stores in Kansas and Oklahoma, itself just went public with a $6.6 million common stock offer.

- General Mills' Casa Gallardo has opened 11 units in 15 months; 12 are now in operation. "We have the backing and our expansion will continue," said Craig Miller, operations vice president. Casa Gallardo plans 15-20 new units per year in the Southeast and Midwest. General Mills executives say that on a per unit basis it's their most profitable concept.
- Acapulco y Los Arcos opened five restaurants in 1980, 11 so far in 1981, for a total of 27; plans are for three more units to open by year-end. A $10 million offering of convertible subordinated debentures was made to financial markets to replenish the expansion war chest. And "we're now willing to look at franchising," said James Doherty, president.
- GuadalaHarry's "is definitely expanding," said parent General Food Corp.'s corporate communications manager Terry Fassburg. A fourth unit will open in Chicago this month and a fifth "in a premium location right next to Quincy Market [Boston] this year or early next," Fassburg said.

Edward J. Power, formerly in charge of restaurant development and planning at General Food's White Plains, N.Y., headquarters is now based in Denver as GuadalaHarry's president.

- Chart House plans to proceed with conversion of many Cork 'N Cleavers to Cisco's Mexican dinnerhouses. Eight have been converted so far and the pace is expected to pick up. Conversion costs Chart House a reported $200,000 per unit, but after the initial conversions the chain was reporting 60% to 70% customer count increases —and the promise of substantially higher unit profits.

Industry sources have indicated that perhaps 25 more Cork 'N Cleavers may be slated for conversion.

Charthouse also has a prototype for building Cisco's from the ground up and plans to build four to six in the next year.

The Cisco's prototype was the work of a design team headed by Roy Guera, vice president for development, formerly with El Torito.

Chart House's evolving Cisco's division will be headed by Brian Bell, who is moving from a post as Cork 'N Cleaver vice president.

- "We're still expanding," said Fred LaFranc, marketing director, El Torito-La Fiesta, W. R. Grace's major competitor in the segment.

LaFranc targeted the Midwest and mid-Atlantic States as the prime untapped market areas for Mexican dinnerhouses.

Besides these and other companies already in the market, still other major restaurant companies are reported on the verge of joining the fray.

The spectre of growing competition only adds to segment participants efforts to, as one said, "go for the money and profit, take advantage of the low-food cost."

LaFranc explained the rush to be first in new markets in these words:

"Who's first sets a standard. They have the opportunity to establish a flavor that to people who were not previously acquainted with Mexican food becomes their idea of what Mexican food should taste like."

LaFranc noted that to meet the resistance of regional American tastes, "We've given ourselves enough latitude."

In fact, no one in the segment seems to be running into any particular problems with food acceptance. The menu served in these dinnerhouses is not spicy. Hot sauce is on the table for afficianados of the burning tongue.

Probably, the key to the segment is LaFranc's remark that "In many respects we're competing with T.G.I. Friday's and Bennigan's.

An abstract profile of the companies mentioned would indicate something very similar:

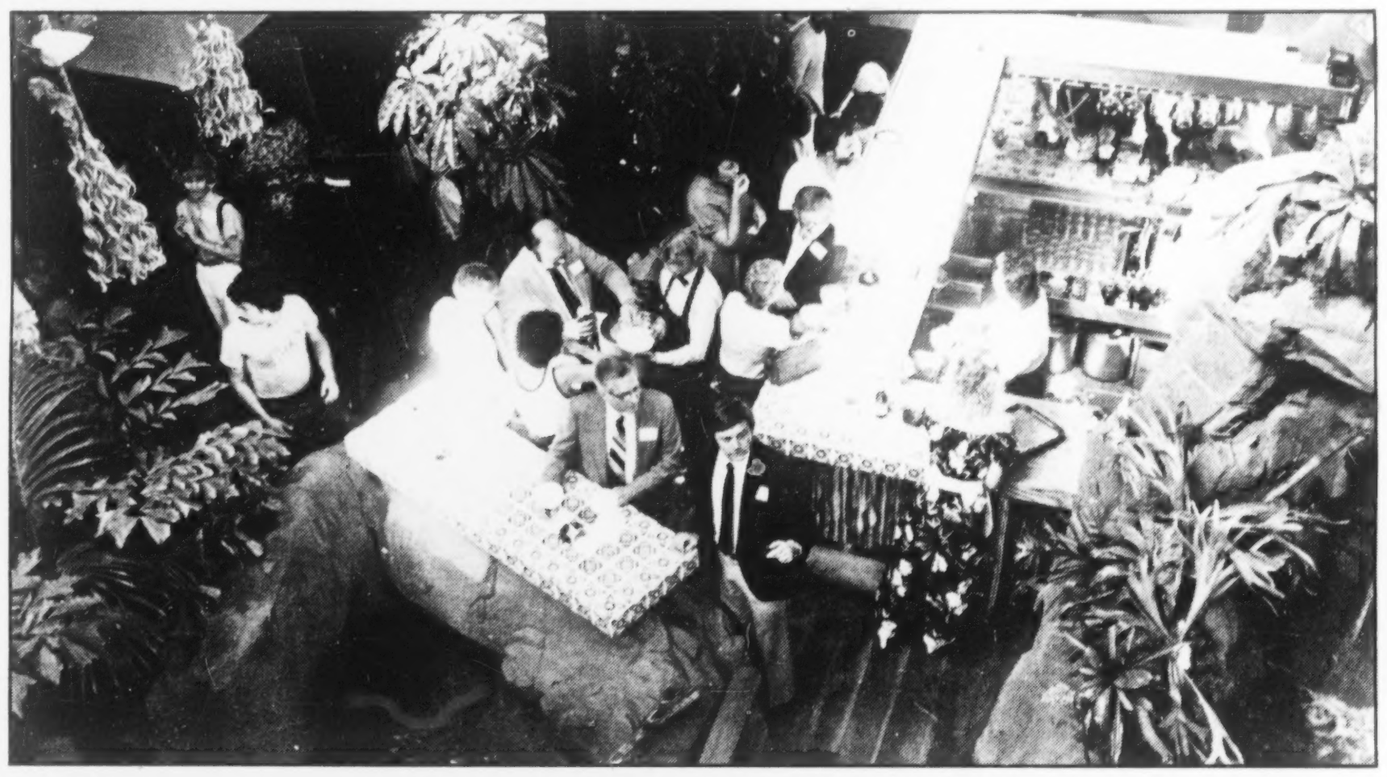
Food costs in the Mexican dinnerhouse segment are typically 25% to 30%. Liquor represents an average 35% of sales. Average checks range from $6.50 to $8. Unit volumes are about $1.5 million to $2 million. Although several of the concepts attract a broad range of customers, for all the most sought after are adult couples from 18 to 45.

Even if the food isn't hot, the Mexican dinnerhouse concept is today hotter than a pistol shooting uphill. But no one knows how long the profits will be there—and for how many.

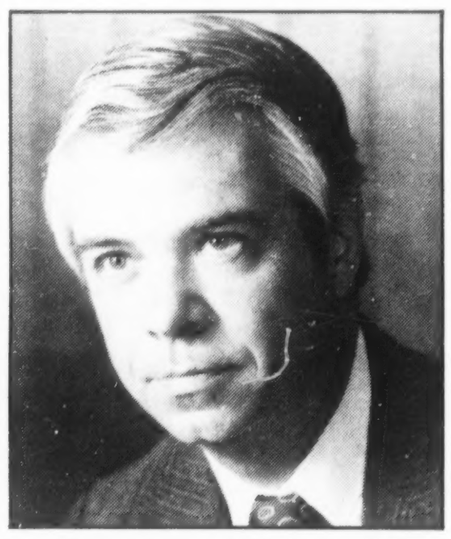
Selected Mexican Dinnerhouses

Chain	Hdqtrs.	Parent Company	Number of Units	Est. Avg. Vol. (millions)	Est. Systemwide Sales Current Fiscal Yr. (millions)	Avg. Dinner Check	Liquor/ Food Sales Ratio
El Torito-La Fiesta	Irvine, Calif.	W. R. Grace	80	1.90	141.0	6.50	—
Chi-Chi's	Louisville, Ky.	John Stephens & Co.	37	1.86	100.0	7.00	35/65
Casa Maria	Santa Monica, Calif.	Host Intl.	24	1.40	35.0	7.00	—
Acapulco y Los Arcos/ Ramons	Pasedena Calif.	—	27	1.50	27.5	—	34/66
Casa Gallardo	St. Louis	Gen'l Mills	12	1.90	20.0	8.50	35/65
Cisco's	Lafayette, La.	Chart House	8	1.10	10.0	9.00	—
GuadalaHarry's	Denver	Gen'l Foods	3	2.50	8.0	8.00	35/65

Source: *Nation's Restaurant News* statistics



Acapulco y Los Arcos is starting to look at franchising in its continuing expansion plans.



James Doherty
president
Acapulco y Los Arcos

Mexican fast feeders battle stagnant market

(Continued from page 1)

curred with other analysts that while the Mexican segment as a whole would enjoy growth in the 1980's, it won't be among the fast-food operations. "The competition from hamburger and chicken chains is too great," Paul said. "Mexican fast-food is there only to offer variety to the burger eaters."

But Mexican fast-food operators are determined to prove the analysts wrong. Citing strategies to increase acceptance of Mexican fast-food and a more favorable economy, chains have expressed confidence that sales will increase. Expansion, they say, will take place in the comparatively open markets in the Northeast and Midwest.

PepsiCo's Taco Bell—the largest chain in this segment with over 1,200 units—plans to open 150 new restaurants this year with 70% located east of Chicago.

Taking a more cautious tack is W. R. Grace's Del Taco Corp. which reportedly lost $2 million in 1980. In the past year, the chain has trimmed down from 185 units to 151. There are currently no plans for expansion, according to Richard Hynan, president.

Kentucky Fried Chicken's Zantigo chain has been reduced in size from a high of 99 units to 62. The company expects to start opening six to eight units in 1982. However, a company spokesman said, parent Heublein hasn't made a decision on whether to push ahead with the chain.

Several problems have haunted Mexican fast-food operations. First, public misconceptions about the product. Mexican food is generally thought of as hot and spicy. There is also an unfamiliarity with menu items and some chains have resorted to menu boards with pictures and brochures that phonetically show customers how to pronounce and order a burrito, tostada or taco.

Del Taco Corp. has a pamphlet to teach people through humorous illustrations how to eat a taco. Several chains—such as Taco Viva—offer a variety of sauces from mild to very hot, aiming to please everyone in their market. Still other chains offer both American items, such as hamburgers, and Mexican foods. This has been the concept of Del Taco Inc. from its inception.

Most operators agreed that more menu expansion is ahead as chains try to reach a broader market. Core items on most menus now consist of standard Mexican fare such as burritos, tacos and tostadas. Recently, taco salads have worked their way onto menus and dessert items, such as fried tortilla with cinammon, are on at least four menus.

Items being tested or recently introduced at various chains include: nachos at Taco Time, which also serves a burrito on whole wheat tortilla to stress nutritional value of the food; green chili verde (a pork product) at Taco Maker, which has 40 units; chimichangas and enpanadas at the 275-unit Taco John's, and chicken tacos and burritos at Del Taco Inc.

Del Taco Inc. is not associated with W. R. Grace's Del Taco Corp.

The menu isn't the only item being expanded. Some chains are breaking with traditional Mexican decors in an attempt to attract more traffic. Del Taco Corp., for example, has an upgraded decor with wood partitions, etched glass and padded seats. Taco Bell too is revamping its interiors to include more earth tones, plants and booth-like seating arrangements.

Smaller regional chains have also been upgrading units. Taco Time, for example, has been remodeling with earth tones and an atrium.

Some chains also see remodeling units that others have abandoned as a way to expand. Taco John's has been doing this at half what it would cost to construct a new unit, a company spokesman said. Other chains, though the exception and not the rule, have been advancing regardless of the interest rates. Taco Maker and Taco Viva are examples. Taco Viva has been expanding with company-generated financing.

While not in the position to expand, Del Taco Corp. is working to develop a smaller building requiring a smaller investment. Several other chains in this segment are also looking for new prototypes that will lower construction and investment costs.

Across the board, operators agree with the need for lower-cost stores. With the exception of Naugles, a 24-hour operation of 66 units based in Fullerton, Calif., which averages about $680,000 per store annually, most chains in this segment only average between $300,000 and $400,000 per store.

Some chain officials see a connection between the solid growth of the pizza segment and the potential growth of the Mexican fast-food segment. Both cuisines are attached to ethnic groups and both use spices and tomato sauce. The two segments also share menu items such as taco pizzas.

"As people get more accustomed to one, they will be willing to try the other," one company official said.